

Summary:

Shoreview, Minnesota; Appropriations; General Obligation

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Credit Profile		
US\$4.695 mil rfdg certs of part ser 2010C due 08/01/2023		
<i>Long Term Rating</i>	AA+/Stable	New
US\$2.72 mil taxable GO Build America bnds ser 2010B due 02/01/2026		
<i>Long Term Rating</i>	AAA/Stable	New
Shoreview GO		
<i>Long Term Rating</i>	AAA/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on Shoreview, Minn.'s general obligation (GO) debt one notch to 'AAA' from 'AA+' based on its view of the city's stable financial operations, continual positive results that have led to very strong reserves, and a "strong" Financial Management Assessment (FMA). The outlook is stable.

At the same time, Standard & Poor's assigned its 'AAA' rating, and stable outlook, to the city's series 2010B taxable GO bonds and its 'AA+' rating, and stable outlook, to the city's series 2010C refunding certificates of participation (COPs).

We rate the COPs one notch below the city's GO debt rating due to the annual appropriation risk associated with the security.

The 'AAA' rating reflects our assessment of the city's:

- Participation in, and access to, the strong Minneapolis-St. Paul (Twin Cities) metropolitan area, coupled with the city's own steadily growing and diverse employment base;
- Very strong income and wealth characteristics;
- Maintenance of very strong reserves, coupled with conservative and strong financial management policies that include long-range budget and capital plans; and
- Low-to-moderate debt burden.

The city plans to issue the series 2010B bonds as federally taxable Build America Bonds, pursuant to the American Recovery and Reinvestment Act of 2009; as such, the city can use the 35% interest subsidy received from the federal government for debt service payment. The tax subsidy will equal approximately \$35,000 in 2012 and steadily decrease thereafter. Management states that it intends to repay the bonds with utility revenues. Management plans to budget annually for the entire principal and interest payment of the bonds, and it does not currently plan to abate future levies in expectation of receiving the federal government's 35% interest subsidy. Upon receipt of the federal subsidy, management states it will use the proceeds to fund the debt service fund.

Officials plan to use series 2010B bond proceeds to finance street and utility improvement projects. The city's full

faith and credit pledge secures the bonds. Officials intend to use series 2010C COP proceeds to refund the city's series 2002A COPs outstanding for interest cost savings. Officials will shift principal lease-rental payments on the COPs to August from February to better align lease payments with the intended repayment sources. The city used the series 2002A COPs to finance community center improvements.

Shoreview is in Ramsey County ('AAA' GO debt rating), about 10 miles north of St. Paul, Minn. (AAA/Stable), providing residents with full access to the Twin Cities metropolitan area. The city's population has increased by 4.8% this decade to its current 27,175. Income levels are, what we consider, very strong: 2009 median household effective buying income was 137% of the state's level and 149% of the nation's level. Although Shoreview is mainly a bedroom community and close to completely built out, the city continues to experience commercial development within city limits. Rice Creek Corporate Park, a 230-acre site, has recently experienced expansion with Wells Fargo taking on a \$21 million project to expand its data center. Well Fargo, with approximately 1,200 employees, should complete its expansion project in 2011. A comprehensive business retention program implemented by the city has helped sustain local employment opportunities. Other leading employers include:

- Deluxe Corp. (1,026 employees),
- Medtronic Inc. (869), and
- Empi Inc. (430).

Unemployment averaged 6.0% as of September 2010, below the state's 6.7% rate and the nation's rate.

The city's taxable market value grew by an average of 7.3% annually between tax years 2005 and 2007. In fiscals 2008 and 2009, however, taxable market value declined by an average of 4% to \$3 billion due mainly to declines in residential home values in the city. Management has conservatively projected that taxable market values will decline by 5.7% in fiscal 2010 and that they will moderately decline thereafter with trends stabilizing starting in 2014 due to stable commercial valuations and area growth. The city's property tax base consists of 72% residential properties and 19% commercial properties. Shoreview's indicated market value, a better measure of property prices in the area, was \$3.13 billion, or, in our view, an extremely strong \$115,352 per capita, in fiscal 2009. The 10 leading taxpayers account for a very diverse 14.3% of total net tax capacity.

The city's strong financial management practices have led to the maintenance of very strong financial reserves. Over the past four years, general fund reserves have ranged between 45% and 51% of expenditures. At fiscal year-end Dec. 31, 2009, the most current audit, Shoreview had a \$3.8 million general fund balance, of which all but \$48,000 was marked unreserved; this provided the city with a fund balance that we consider a very strong 51% of expenditures. Results over the past few years have been good: The city closed fiscal 2006 with a \$218,000 surplus; fiscal 2007 with a \$390,000 surplus; fiscal 2008 with a \$162,000 surplus; and fiscal 2009 with a \$261,000 surplus.

The city is a recipient of market value homestead credit aid, but it did not account for this aid in its 2009 annual budget. The city's state-allocated market value homestead credit fell by \$286,400 in fiscal 2009. The city had projected state aid reductions as early as fiscal 2006 by designating funds within the general fund to offset revenue declines. The designated funds built in for contingency purposes totaled about \$230,000 in fiscal 2009. In fiscal 2010, management states that, once again, it did not budget for any market value homestead credit revenues. Therefore, factoring in contingencies built into the budget and favorable trends related to building permit revenues, the city expects to report a roughly \$130,000 surplus for fiscal 2010. For fiscal 2011, assuming zero state aid revenues, management expects to adopt a balanced budget without using reserves. In fiscal 2009, property taxes

generated 75.0% of general fund revenues while intergovernmental aid revenues accounted for 4.7%.

Standard & Poor's considers Shoreview's financial practices "strong" under its FMA methodology, indicating financial practices are strong, well imbedded, and likely sustainable. Shoreview formulates its revenue and expenditure assumptions using a combination of historical trends and outside data. The city makes monthly reports to the city council on budgeted numbers compared to actual performance; the council can amend the budget, as necessary. Shoreview's management engages in extensive long-term financial and capital planning. The city's investment policy adheres to state guidelines, and management updates the council on holdings and returns monthly. Shoreview recently revised its fund balance policy to state the city will maintain 50% of the following year's taxes and state aid, up to a maximum of that total plus 10%, instead of 5% of budgeted expenditures in the ensuing year. In addition, management recently adopted a formal debt management policy.

The city's overall debt ratios, excluding self-supporting utility debt, are, in our view, a moderate \$2,895 per capita, or a low 2.5% of market value. Carrying charges were a moderate 10.9% of total governmental funds less capital expenditures in fiscal 2009. Direct debt amortization is above average with officials planning to retire 58% of principal over the next 10 years. We understand that, according to officials, the city might issue approximately \$3.5 million of additional debt in the coming years to address utility and street improvements. The city does not offer its retirees other postemployment benefits. Retirees, however, have the option to remain in the city's health insurance plan; they are responsible for paying the entire insurance premium. Based on the city's 2008 actuarial valuation, the city's additional cost for allowing retirees to participate in its health insurance plan was approximately \$110,109.

Outlook

The stable outlook reflects Standard & Poor's expectation that Shoreview will likely continue to maintain its very strong financial reserves, extensive planning, and good financial practices. We also expect city officials to take the necessary steps to manage operations adequately given the forecast market value declines that might have an effect on budgets in the future. Any significant declines in the city's financial reserves could pressure the rating. The city's participation in the St. Paul-Minneapolis metropolitan area provides further stability.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

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